

ILLINOIS  
COMMERCE COMMISSION

Docket No. 01-0279

Staff Ex. 1.0

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CHIEF CLERK'S OFFICE

DIRECT TESTIMONY  
OF  
MARK A. HANSON

TELECOMMUNICATIONS DIVISION  
ILLINOIS COMMERCE COMMISSION

FIRST TELECOMMUNICATIONS SERVICES, INC  
DOCKET NO. 01-0279

AUGUST 31, 2001

1 **I. INTRODUCTION**

2  
3 **Q. State your name and business address.**

4 A. My name is Mark A. Hanson. My business address is 527 East Capitol, Springfield,  
5 Illinois 62701.

6  
7 **Q. By whom are you employed and in what capacity?**

8 A. I am employed by the Illinois Commerce Commission ("Commission") as an  
9 Economic Analyst in the Rates Section of the Telecommunications Division.

10  
11 **Q. Please describe your education and occupational background.**

12 A. I received a Bachelor of Science degree in Commercial Economics from South  
13 Dakota State University in 1978. I received a Master of Science degree in  
14 Economics from South Dakota State University in 1981. From 1981 to 1987, I was  
15 employed by the South Dakota Department of Transportation as a Transportation  
16 Planner. During this time, I also taught evening classes in economics at Capitol  
17 University Center. From 1987 to 1989, I was enrolled in the doctoral program in  
18 Economics at Iowa State University. During that time, I was employed as an  
19 instructor in the Agricultural Business and Transportation/Logistics departments.  
20 From June 1990 to January 2000, I worked for Illinois Power Company. I was  
21 employed by Illinois Power as a Forecast Specialist, Regulatory Matters Specialist,  
22 Gas Supply Specialist, and Competitive Pricing Specialist. I joined the Staff of the  
23 Commission in July of 2000.

25 **Q. Briefly describe your work duties with the Illinois Commerce Commission.**

26 A. My responsibilities include reviewing wholesale and retail tariff filings of both  
27 competitive and non-competitive telecommunications services, providing support to  
28 other Commission Staff and analysis on cost study issues in docketed cases that  
29 have cost of service and rate implications. I also act as a representative of the  
30 telecommunications division in certification proceeding for local exchange service  
31 before this Commission.

32

33 **Q. Have you previously testified before any regulatory agencies?**

34 A. I have testified before this Commission in Docket Nos. 98-0252/98-0335(Consol.),  
35 Docket No. 00-0641, Docket Nos. 00-0511/00-0512(Consol.), and Docket No. 01-  
36 0479. I have also testified before the Federal Energy Regulatory Commission. I  
37 have also participated in over 20 local exchange certification proceedings before this  
38 Commission.

39

40 **Q. What is the purpose of your testimony?**

41 A. My testimony addresses the requirements of Sections 13-404 of the Public Utilities  
42 Act ("PUA") with respect to the requirements of the Commission in granting a  
43 certificate of local exchange authority. I will conclude that the Commission should  
44 not grant First Telecommunications, Inc., a certificate of local exchange authority.

45

46 **Q. What is the petitioner seeking in this docket?**

47 A. On March 20, 2001, First Telecommunications Services, Inc., filed a petition with

the Commission seeking authority to offer resold local exchange, resold inter-exchange , and facilities based service under Sections 13-403, 13-404, and 13-405 of the Public Utilities Act.

**Q. Does the Applicant still seek authority to do business under the all of those sections?**

A. I believe not. During the first hearing in this proceeding on April 18, 2001, there was considerable discussion both on and off the record of the applicant's desires in to offer resold local exchange, resold inter-exchange and facilities based service under the above mentioned Sections of the Public Utilities Act. Tr. at 47. However, based on an examination of the transcripts of that hearing as well as the hearing on May 17, 2001, I believe that the applicant is currently only seeking authority to do business as a reseller of local exchange services pursuant to 13-404. Tr. at 17, (May 17, 2001). The remainder of my testimony is predicated upon that assumption. Nevertheless, to eliminate the ambiguities contained in the record as well as alleviate any future confusion, I believe that the applicant's filed application for certification should be corrected and re-filed to reflect the company's true offerings, specifically, the applicant should be required to file a revised application that correctly identifies the service that the applicant intends to offer.

**Q. What are the requirements an applicant must meet to receive certification under Section 13-404 of the Public Utilities Act.**

A. Section 13-404 states, "The Commission shall approve an application for the resale

of local exchange or inter-exchange telecommunications service upon a showing of the applicant, and a finding by the Commission, after notice and hearing, that the applicant possesses sufficient technical, financial, and managerial resources and abilities to provide the resale of telecommunications service."

**Q. What must applicants generally provide to Staff to show that they possess sufficient technical, financial, and managerial resources and abilities?**

A. Applicants must provide information to assigned Staff members for the Telecommunications Division as well as the Consumer Services Division. Barbara Lankford's testimony addresses the requirements of the Consumer Services Division. The general managerial, financial, and technical requirements are described below.

**Q. Does Staff require this in all certification cases?**

A. Yes.

**Q. Do you believe the certification review process described throughout your testimony constitutes a barrier to entry?**

A. No. This review process is necessary to ensure that companies that do not possess the required managerial, financial, and technical abilities to operate a telecommunications company do not enter the market. Considering the importance of quality and reliable telephone service to end-users as well as the importance of maintaining the integrity of the telecommunications network, companies that would be a detriment to these factors should not be allowed to operate in Illinois. The potential harm that these companies could cause end-users and other carriers

94 easily outweighs the positive effects that an additional carrier has on increased  
95 competition. Considering the fact that there have been approximately 200  
96 competitive telecommunications carriers that have met these requirements and have  
97 been granted certificates by this Commission, it is apparent that this process is not  
98 overly stringent. The function of the process is to ensure that each Applicant is  
99 qualified and able to provide the service it has requested.

100  
101 **Q. What are the managerial requirements Staff reviews?**

102 A. Staff reviews many factors to determine if the Applicant possesses sufficient  
103 managerial resources and abilities. First, the company must provide management  
104 biographies or resumes of its managers in order to demonstrate their managerial  
105 experience within the telecommunications industry. This would include the applicant  
106 submitting an accurate and complete application that (1) shows that it possesses  
107 basic financial management skills; (2) indicates it has a Certificate to Transact  
108 Business in the State of Illinois; and (3) provides testimony of a key member of  
109 management to support the application. Although this is not an inclusive list, this  
110 description illustrates the basic review process to determine if the applicant  
111 possesses the required managerial abilities and resources.

112 **Q. What are the technical requirements that Staff reviews?**

113 A. To prove that an Applicant possesses sufficient technical resources and abilities, the  
114 company must provide a biography or resume of a company employee[s] who has  
115 sufficient experience with telecommunications networks and systems. The company  
116 must also agree to provide technical support to their customers twenty-four hours a

117 day, seven days a week.

118 **Q. What evidence has First Telecommunications presented to demonstrate its**  
119 **technical resources and ability to provide service?**

120 A. At the first hearing in this matter, First Telecommunications stated that it would be  
121 relying on a switch vendor for technical expertise. Tr. at 38,(April 18, 2001).

122 However, since that time, First Telecommunications has indicated that it will not be  
123 purchasing a switch and that it intends to offer only resold local exchange services  
124 pursuant to Section 13-404 of the Public Utilities Act. Tr. at 17, (May 17,2001).

125 Therefore it is unclear what type of technical expertise the switch vendor can offer

126 First Telecommunications, yet, the applicant continues to assert that the switch  
127 vendor will offer technical support. Tr. at 1240125. Nevertheless, if the term

128 "technical resources and ability to provide services" is defined as the "ability to  
129 provide customers access to the network", then the underlying carrier, i.e. the  
130 provider of wholesale services, would provide those resources.

131 **Q. What evidence did First Telecommunications provide Staff on the required**  
132 **financial resources?**

133 A. Since First Telecommunications is a start up enterprise, First Telecommunications  
134 provided Staff with a balance sheet showing the initial paid in capital into the  
135 corporation. As a start-up, First Telecommunications did not include an income  
136 statement. Staff has no issue with First Telecommunications financial resources or  
137 abilities.

138 **Q. What evidence did First Telecommunications provide Staff on the required**  
139 **managerial resources and abilities?**

140 A. In its petition First Telecommunications provided resumes and biographies of the  
141 officers of First Telecommunications. Additionally, in response to a Staff request,  
142 First Telecommunications provided Staff with several versions of a draft tariff. After  
143 reviewing the documents and materials provided by First Telecommunications, Staff  
144 served data requests upon First Telecommunications. As a result, First  
145 Telecommunications then provided Staff with responses to its data requests.

146 **Q. After reviewing the Applicant's material on managerial resources, what**  
147 **conclusion have you drawn?**

148 A. The resumes of personnel employed by the applicant demonstrate a great deal of  
149 general business expertise, mainly in the area of business collections. It could be  
150 argued that much of this expertise possibly may be transferred to operating a local  
151 exchange reseller business. However, I do not believe the Applicant has enough  
152 general background in telecommunications to adequately manage the enterprise.

153 **Q. On what basis did you draw this conclusion?**

154 A. I based my conclusion on the testimony by the applicants at the various hearings,  
155 as well as through the information I obtained from examining the draft tariffs and  
156 responses to Staff's data requests. For instance, at one hearing, Mr. Thompson,  
157 the witness for the applicant, did not appear to understand the distinction between  
158 local exchange and inter-exchange phone service. Tr. at 46-47, (April 18,2001).  
159 This in part formed the basis of Staff's decision to ask First Telecommunications to  
160 provide a draft tariff for the Staff to examine. Upon examining several versions of  
161 First Telecommunications' draft tariff as well as First Telecommunications'  
162 responses to Staff's data requests, Staff noticed numerous errors and

inconsistencies in its proposed telecommunication service offerings. I will confine my analysis to First Telecommunications' responses to rate and telecommunications related areas. Ms. Lankford will address First Telecommunications' responses that purport to comply with Illinois Administrative Code Part 735.

**Q. Why did Staff request a draft tariff from the applicant?**

A. Draft tariffs are not typically a part of certification proceedings. Companies which have been authorized to offer telecommunications services in the state of Illinois are required to file tariffs prior to offering service. However, from time to time, Staff does request that an applicant give Staff a draft tariff to assist Staff with evaluating the ability of the applicant to comply with the Public Utility Act of the State of Illinois and with Commission administrative rules.

**Q. What are some of the problems contained in First Telecommunications' responses and draft tariff?**

A. As far as I can determine from items in the record and other discussions with First Telecommunications, I believe that it is First Telecommunications' intent to resell local exchange services of Ameritech in Market Service Area 1 (hereafter MSA1). MSA1 is the Local Access and Transport Area(hereafter LATA) that encompasses Chicago Metropolitan Area and outlying exchanges. It consists of exchanges ranging from the Loop in downtown Chicago to other exchanges in Illinois such as Geneva, Harvard, and LaSalle. However, many of the items contained in the draft tariff and data requests are inconsistent with the terms, conditions, and rate design

of Ameritech offerings that First Telecommunications intends to resell.

For instance, Ameritech's local exchange usage rates are time based, i.e. the rate for a local call varies upon the time of day that call is placed. Ameritech defines three different time periods. The defined peak period in MSA1 is from 9:00 a.m. to 11:00 a.m. and 2:00 p.m. to 8:00 p.m. Monday through Friday. The shoulder peak period is defined as from 8:00 a.m. to 9:00 a.m., 11:00 a.m. to 2:00 p.m., and from 8:00 p.m. to 9:00 p.m. on Monday through Friday. The off peak period is all other times. (See Ameritech Wholesale Rate Tariff). On First Telecommunications' rate sheet the residence usage rates are illustrated using these terms. Staff Ex. 2.0 Attachment 1 at Section 5. However, in the definition section of the tariff, First Telecommunications does not define peak, shoulder, or off-peak periods in a fashion that would conform to their rate sheets. In the definitions section of the tariff, First Telecommunications does define a peak period that extends from 7:00 a.m. to 7:00 p.m. Central Standard Time. The off-peak period is defined as extending from 7:00 p.m. to 7:00 a.m. Central Standard Time. Id. at Definitions. There is no definition for a Shoulder period even though the term is used in the rate sheets. Elsewhere in the tariff, there are definitions for Day, Evening, and Night/Evening periods. The Day period is defined as 8:00 a.m. to 5:00 p.m. Monday through Friday. The Evening period is defined as extending from 5:00 p.m. to 11:00 p.m. Monday through Friday and Sunday. The Night/Evening period is defined as all other times. For certain major holidays, the Evening rate applies unless a lower rate is applicable. However, nowhere in the rate sheets are any rates referencing

these time periods. Therefore, it appears no rate periods are defined in First Telecommunications tariffs that correspond to the rates that First Telecommunications intends to charge. First Telecommunications should either use Ameritech's definitions explicitly in its tariff or cite the appropriate area in Ameritech's tariffs since it appears that First Telecommunications is intending to mirror Ameritech's service offerings. It is imperative for First Telecommunications to provide reliable and conforming rate terms and conditions because inconsistent rate definitions could lead to disputes with customers as to the proper charge for local usage services. Consequently, it would be difficult for the Commission to resolve those disputes without properly defined service offerings.

Moreover, another potential problem is that First Telecommunications does not define its service area. Again, it is my understanding that First Telecommunications intends to provide service throughout Ameritech's MSA1 area. In fact, First Telecommunications confirmed this in response to Staff Data Request MAH-1.02. Staff Ex. 2.0 Attachment 2. As I discussed earlier, MSA1 principally consists of the city of Chicago and its outlying suburbs. Ameritech has three access areas in MSA1: (1) Area A which consists of the Loop area in downtown Chicago;(2) Area B which consists of the rest of the City of Chicago; and (3) Area C which consists of the suburban and exurban areas of MSA1. Ameritech's tariffs provide for different network access rates for those three zones. First Telecommunications' draft tariff only shows one network access line charge for the monthly amount of \$2.63. This is potentially a problem for First Telecommunications and its customers.

**Q. Please explain why this might be a potential problem for First**

**Telecommunications and its customers.**

A. As a reseller of Ameritech's local exchange services, Ameritech will bill First Telecommunications the wholesale rate for the services that First Telecommunications' customers are using. The most fundamental telephone service is access to the network. Thus, First Telecommunications will incur a wholesale charge for network access line service for each residence customer that it serves. However, the wholesale charge for residence network access line service in MSA1 Area B and MSA1 Area C is higher than the retail charge for network access line service contained in First Telecommunications rate sheet. For example, the wholesale charge for a residential network access line in Access Area B is \$4.83. The wholesale charge for a residential access line in Access Area C is \$8.11. Consequently, if First Telecommunications offers service in Areas B and C, they will be losing money on every customer that they serve in those areas. In the alternative, they could refuse to offer service to customers in those areas. However, that would violate the tariff that they propose to file with this Commission.

Developing a business plan that guarantees losing revenue from a significant segment of eligible customers demonstrates serious managerial flaws. I will concede that understanding telecommunications rates and services is often an arcane, if not completely Byzantine, endeavor. However, it is an endeavor that the management of a telecommunications enterprise must undertake to properly render service to the public. The evidence First Telecommunications has presented to

Staff in this proceeding does not suggest that their management has completed this endeavor.

**Q. Did you see other potential problems with the data request responses and the draft tariff?**

A. The company makes repeated references to facilities it may be providing customers, although they would only be providing resold services. Also, the company makes reference to providing an exchange access service which would allow customers to "access certain interstate and international calling services provided by the Company" and also to "the Company's Switched Access services as provided by under the Company's Federal and State tariffs." Staff Ex. 2 Attachment 1. To my knowledge, First Telecommunications does not have inter-exchange authority, as a result it would not be able to offer "certain interstate and international calling services". Additionally, First Telecommunications does not have a switch, nor would it need one to resell local exchange service, therefore I do not understand how First Telecommunications will be able to offer its customers switched access services. This discrepancy further reinforces my concerns about First Telecommunications' capabilities as telecommunications provider.

**Q. Did any of the responses to Staff's data requests cause you to have concerns about the applicants managerial ability to provide telecommunications services?**

A. Yes. For instance, in Data Request MAH-1.02, the applicant was asked, Please indicate if First Telecommunications intends to offer service only in

278 Ameritech's service territory and if so, please specify in what areas. Section 5,  
279 Original Page 1 shows a residential access charge only for MSA1-A but  
280 charges are shown for residential usage in MSA 2-16. Does First  
281 Telecommunications intend to offer services in other areas in MSAs 2-16.  
282 Does the applicant intend to offer services in Access Areas MSA1-B and  
283 MSA1-C? Staff Ex. 2.0 Attachment 2.

284 First Telecommunications' responded, "Yes. We plan to offer service in the Illinois  
285 market. At the present time we will not offer service in MSA 2-16. We will offer  
286 service in areas MSA1-B and MSA 1-C." Id. However, in subsequent versions of  
287 the draft tariff First Telecommunications provided to Staff, the residence network  
288 access line charge did not reflect First Telecommunications offering service in  
289 MSA1-B and MSA1-C as described earlier in my testimony. Staff Ex. 2.0  
290 Attachment 1.

291

292

293 Staff Data Request MAH-1.05 asked, "Please describe if and how First  
294 Telecommunications intends to recover charges associated with the EUCL." Staff  
295 Ex. 2.0 Attachmnet 2. The applicant responded "No. Initially, we will not offer  
296 intere.[sic]" Id. The applicant did not complete the response. It is apparent that the  
297 applicant did not understand the question. The End User Common Line Charge  
298 (hereafter EUCL) is a federal access charge which local exchange carriers may  
299 recover from end use customers. If First Telecommunications does not understand  
300 EUCL , I doubt if they will recover the charge. This would not harm First  
301 Telecommunications customers but it does cast doubt on First Telecommunications

302 managerial ability.

303  
304 Staff Data Request MAH-1.06 asked, "With respect to Section 2.24, does First  
305 Telecommunications intend to offer interexchange service?" Id. The response was  
306 "No. Initially, we will not offer interexchange service." Id. Yet, subsequent versions  
307 of the draft tariff supplied to Staff made reference to the interstate and international  
308 call services as outlined earlier in my testimony. Staff Ex. 2 Attachment 1.

309 **Q. What do you conclude from your examination of First Telecommunications**  
310 **draft tariffs and data request responses?**

311 A. I have concluded that First Telecommunications does not have knowledge of many  
312 business aspects of providing telecommunications services. They do not have a  
313 clear understanding of what type of service authority they are seeking from this  
314 Commission. They do not have enough understanding of various rate concepts to  
315 charge customers enough to cover their costs. They do not understand how to  
316 construct a tariff that will outline the obligations First Telecommunications has to  
317 customers and what obligations customers have to First Telecommunications. I  
318 have to conclude that First Telecommunications does not meet the managerial  
319 resources standard of Section 13-404 of the Public Utilities Act.

320 **Q. What do you recommend?**

321 A. I recommend that First Telecommunications not be granted the certificate of  
322 authority they are seeking under Section 13-404 of the Public Utilities Act.

323 **Q. Does this conclude your testimony?**

324 A. Yes.